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FEDERAL HOUSING FINANCE AGENCY

12 CFR Part 1272

RIN 2590-AA84

Federal Home Loan Bank New Business Activities

AGENCY: Federal Housing Finance Agency.

ACTION: Final rule.

SUMMARY: The Federal Housing Finance Agency (FHFA) is amending its regulations addressing requirements for the Federal Home Loan Banks' (Banks) new business activity (NBA) notices. The final rule reduces the scope of activities requiring submission of an NBA notice, modifies the submission requirements, and establishes new timelines for agency review and approval of such notices. The final rule also reorganizes a part of the regulations to clarify the protocol for FHFA review of NBA notices.

DATES: The final rule is effective on [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

FOR FURTHER INFORMATION CONTACT: Lara Worley, Principal Financial Analyst, Lara.Worley@FHFA.gov, 202-649-3324, Division of Federal Home Loan Bank Regulation; or Winston Sale, Assistant General Counsel, Winston.Sale@FHFA.gov, 202-649-3081 (these are not toll-free numbers), Office of General Counsel, Federal Housing

Finance Agency, Constitution Center, 400 Seventh Street, SW., Washington, DC 20219.

The telephone number for the Telecommunications Device for the Hearing Impaired is 800-877-8339.

SUPPLEMENTARY INFORMATION:

I. Background

On August 23, 2016, FHFA published a proposed rule that would have modified FHFA's regulation establishing the process for the submission, review, and agency approval of Bank NBA notices. The proposed rule would have narrowed the scope of activities requiring submission of an NBA notice to those that entail "material risks not previously managed by the Bank" and would have excluded from the definition of "new business activity" the acceptance of new types of advance collateral. The proposed rule would have streamlined the NBA notice content requirements, thereby providing the Banks with greater flexibility to tailor their notices to the nature of the particular activity in which they seek to engage. The proposed rule also would have established new 30 and 80 business-day review timelines, under which FHFA would approve or deny notices. Those time periods could be tolled while FHFA awaited responses from the Banks for additional information, or in the event that the FHFA Director (Director) determined that the notice raised significant policy, supervisory, or legal issues that require additional time to resolve. The proposed rule generally provided that if FHFA were to fail to respond to, approve, or deny the notice, as applicable, within the appropriate timeline, then the notice would be deemed to have been approved as of the end of the applicable time period. The proposed rule also included an exception to the deemed to be approved concept for those notices for which the Director has elected to extend the review timeline

by an additional 60 business days. For such notices, FHFA's affirmative approval would be required before the requesting Bank could commence the proposed activity. The proposed rule also would have delegated to the Deputy Director for Federal Home Loan Bank Regulation (Deputy Director) the authority to approve NBA notices, which delegation is in substance identical to the similar delegations of authority set forth in FHFA's procedures regulations, under which the Deputy Director can grant approvals and issue non-objection letters on behalf of the Director.¹

II. Consideration of Differences between the Banks and the Enterprises

When promulgating regulations relating to the Banks, section 1313(f) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 requires the Director to consider the differences among the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (together, the Enterprises) and the Banks with respect to the Banks' cooperative ownership structure; mission of providing liquidity to members; affordable housing and community development mission; capital structure; and joint and several liability.² The changes in this rulemaking apply exclusively to the Banks and generally affect the scope and timing of their NBA notifications. Apart from those changes, the substance of this final rule is substantially similar to that of the existing NBA regulation. In preparing the proposed and final rules the Director has considered the differences between the Banks and the Enterprises as they relate to the above factors and has determined that none of the statutory factors would be implicated by the final rule. The proposed rule requested public comments on the extent to which the rule would implicate any of the statutory factors, but none of the comment

¹ See 12 CFR 1211.3 and 1211.4.

² See 12 U.S.C. 4513(f).

letters addressed this requirement.

III. Response to Comment Letters

In response to the proposed rule, FHFA received four substantive comment letters, a joint letter from the Banks and one letter each from the National Association of Home Builders (NAHB), the Independent Community Bankers of America, and a private citizen. Most of the letters generally supported the proposed rule, but also recommended different ways in which FHFA should revise certain aspects of the rule. In response to these recommendations, FHFA has incorporated two revisions into the final rule, which are discussed below. The following sections of this document describe the issues raised by the commenters, along with FHFA's responses, which are included as part of FHFA's descriptions of the particular provisions of the final rule for which the commenters had suggested revisions. For other provisions of the proposed rule about which the commenters raised no issues, FHFA has adopted them without change.

IV. Final Rule

FHFA has made two revisions to the regulatory text of the final rule in response to comments received on the proposed rule, each of which is discussed below. Apart from those revisions, the regulatory text of the final rule is unchanged from that of the proposed rule. FHFA has declined to make certain revisions recommended by the commenters, which also are discussed below.

A. Comments Incorporated into the Final Rule

1. Submission Requirements (1272.3)

Section 1272.3 of the rule describes the types of information that a Bank must include as part of its NBA notice. The proposed rule had required that a Bank indicate in

its NBA notice whether the contemplated activity had been previously approved by FHFA for any other Bank. FHFA had included this requirement in the proposed rule to help expedite its review of NBA notices in cases in which a Bank is seeking approval of an activity it knows to have been approved for another Bank, and thus should raise no new legal or policy issues. The Banks commented that this requirement should be limited to instances where the requesting Bank actually has knowledge that FHFA has approved the same activity for another Bank. The Banks explained that FHFA should have the most comprehensive information on which Banks have previously been approved for particular activities, and that because NBA notices, and any corresponding FHFA approvals, are not public documents, a Bank would not necessarily know whether FHFA has previously approved a given activity for another Bank. The Banks offered specific revisions to the regulatory text to address their concern. FHFA agrees with this recommendation and has revised the final rule by adding the language suggested by the Banks to limit the applicability of this provision to instances where the requesting Bank has actual knowledge that FHFA has previously approved the activity for another Bank.

2. Approval Standard (1272.4)

Section 1272.4(e) of the proposed rule would have added a new, explicit standard under which FHFA would approve NBA notices. In substance, that standard would have provided that FHFA would approve an NBA notice only if it determined that the Bank could conduct the proposed activities in a safe and sound manner, and that the activity would be consistent with the housing finance and community investment mission of the Banks, and with the cooperative nature of the Federal Home Loan Bank System (Bank System). The Banks commented that the proposed approval standard failed to reference

that portion of the Banks' statutory mission that requires them to be a source of liquidity for their members, and did not encompass certain other services that they are legally authorized to provide to their members. The Banks also objected to the use of the phrase "cooperative nature of the Bank System" as part of the approval standard, contending that it is vague and is not supported by statutory language. FHFA agrees that the Banks' overall mission includes serving as a source of liquidity for their members and has incorporated language into the final rule's approval standard reflecting the same.³ The final rule, however, retains the language referring to the "cooperative nature of the Bank System" as part of the approval standard. By statutory design, the Banks are cooperative institutions, meaning that they provide products and services to their member institutions, and only to their members, and those members collectively own the Bank. Moreover, the very provision of the statute that the Banks cited in support of their request to include a liquidity element as part of the approval standard also refers to the "cooperative ownership structure" of the Banks.⁴

FHFA's intent in including this language in the standard was to ensure that before approving a Bank's request to engage in any new type of activity FHFA would confirm that the proposed activity would in some manner benefit the members of the Bank. Examples of activities that would be consistent with the cooperative nature of the Bank System, and which have been the subject of prior NBA notice approvals, would include proposals to purchase mortgage loans from Bank members or otherwise facilitate the members' sale of such loans, as well as proposals to allow members to pledge new types of collateral to support their borrowing from the Banks, which would no longer require

³ See 12 U.S.C. 4513(f)(1)(B).

⁴ See 12 U.S.C. 4513(f)(1)(A).

an NBA notice under the final rule. With respect to the Banks' comment that the proposed standard also should consider certain services the Banks are legally authorized to provide to their members, the intent of this provision of the rule is to articulate a general standard against which FHFA can assess a proposed activity in deciding whether to approve the notice. It is not intended to be a list of all products or services that a Bank may provide to its members or of all investments and activities in which the Banks now engage.

B. Comments Not Incorporated into the Final Rule

1. Definition of NBA (1272.1)

The proposed rule would have narrowed the scope of the NBA regulation in two ways: (1) By limiting it to activities that introduce new material risks to the Bank; and (2) By eliminating the need to file an NBA notice prior to accepting new types of collateral. The final rule retains both of those provisions. In explaining the rationale for excluding new collateral types from the NBA definition, the supplementary information for the proposed rule stated that “the remaining universe of new types of collateral that might potentially fall into the [other real estate related collateral] category is small.”⁵

The Banks commented that this language could be interpreted either to limit the types of assets that qualify as other real estate related collateral to the specific items already approved by FHFA, or to limit the proposed exclusion from the NBA filing requirement to those types of collateral that FHFA has previously approved for other Banks. The Banks asked that FHFA confirm in the final rule that FHFA did not intend the statement in the proposed rule to have either of those effects. The intent of the statement in the

⁵ See 81 FR 57501 (August 23, 2016).

proposed rule was simply to acknowledge that, as a practical matter, the Banks and their members likely have already identified most of the types of assets held by the members that could qualify as “other real estate related collateral,” and thus any new types of such collateral would likely not present any materially different risks beyond those that the Banks currently manage with their existing collateral. The language of the final rule is unqualified, meaning that all types of new collateral are excluded from the term “new business activity” and thus would not trigger the requirement to file an NBA notice.

The proposed rule did not specifically address the extent to which the NBA regulations would apply to the Banks’ mortgage programs or products, including Acquired Member Asset (AMA) programs or products. Nonetheless, commenters requested that FHFA revise the definition of “new business activity” to exclude: (1) any new AMA product involving federally-insured or guaranteed loans; (2) any modifications that a Bank proposed to make to its existing AMA programs or products, and; (3) any proposals by one Bank to begin offering a new AMA program or product that FHFA has previously approved for another Bank. The three areas commenters identified for exclusion would likely encompass all activities related to mortgage programs and products. The Banks had raised similar comments in response to a separate proposed rulemaking to amend and relocate the current AMA regulations.⁶ FHFA has not included any of these revisions in the final rule. As noted above, under the final rule any new activity will require the submission of an NBA notice if it entails new material risks to the Bank. To the extent that modifications to a Bank’s existing mortgage program or product, or the establishment of new products involving federally-insured or guaranteed

⁶ See 80 FR 78689 (December 17, 2015).

loans, would present new material risks to the requesting Bank, they would require the submission of an NBA notice. Similarly, while a request to offer a mortgage program or product that FHFA has already approved for another Bank would not raise new legal or policy issues, it could raise supervisory issues with respect to the requesting Bank, such as with respect to its ability to manage the particular risks associated with the program or product. FHFA believes that a Bank should apply the new material risk standard equally to all types of new activities in which it might engage. FHFA does not believe that it should grant a blanket exclusion from its review of any particular area of the Banks' business.

FHFA expects that there may be instances in which a Bank is unsure whether the risks associated with a particular new activity or modification to an existing activity are material, for purposes of the new business activity regulation. As is the case under the current regulation, FHFA is available to consult with the Banks regarding the need to file an NBA notice with respect to a proposed activity, and will make every effort to promptly advise a Bank whether a filing is required. With respect to new activities that the Banks commence after determining that they do not present new material risks, FHFA will assess those the risks associated with those activities as part of its regular supervisory process, including examinations.

2. Review Process (1272.4)

The proposed rule had used "business days" for calculating the length of the FHFA review periods. The Banks recommended that replacing that term with "calendar days" would be more convenient and consistent with other regulations. Doing so, however, also would have the effect of reducing the period of time available for FHFA to

review and act on an NBA notice. FHFA had proposed the 30 and 80 business-day review periods based on its experience in considering prior NBA notices, some of which are straightforward and others of which present significant policy or legal issues, which require more time to assess. Accordingly, FHFA has decided to retain these time periods in the final rule, and does not believe that either it or the Banks would face any undue difficulty in determining the length of the review period based on business days.

In the Supplementary Information to the proposed rule, FHFA stated that the 30 business-day review period established in § 1272.4(a) would be “generally intended for activities already approved for other Banks[.]”⁷ The NAHB requested that the final rule explicitly provide that all NBA notices pertaining to activities that FHFA has previously approved for other Banks be required to be reviewed under the 30 business-day timeline. Although FHFA believes that in many cases it will in fact process such NBA notices within 30 business days, it declines to incorporate this request into the regulation because of the possibility that Bank-specific conditions could raise supervisory issues necessitating review under the 80 business-day timeline.

The proposed rule included provisions that would deem any NBA notice to be approved if FHFA did not respond within the applicable 30 or 80 business-day timeline. The proposed rule, however, did not include such an automatic approval provision for those notices for which the Director extended the review period for an additional 60 business days, beyond the 80 business-day period. For those notices, the Banks could commence the activities only upon affirmative approval from FHFA. The Banks requested that FHFA revise the final rule so that even those notices that were subject to

⁷ 81 FR 57502 (August 23, 2016).

the Director's 60 business-day extended review period would also be subject to a deemed approved provision if the Director did not act by the end of the extended period. The Banks commented that the 80-day review period offers sufficient time for FHFA to act on a notice without the Director's 60-day extension and that it is unclear what regulatory or public policy benefit would be served by extending the proposed time frame. FHFA declines to accept the Banks' suggestion, principally because notices for which the Director has extended the review period will most likely involve significant policy or legal issues, in which the Director will be directly involved. Such matters may present issues of first impression for the agency that require an extended period to fully vet, and thus do not lend themselves to being approved automatically by the passage of time. Moreover, such an automatic approval provision could inappropriately conflict with the Director's statutory oversight authority, which provides the Director with broad latitude to exercise such incidental powers necessary in the supervision and regulation of the Banks.⁸

3. Approval of Notices (1272.7)

The proposed rule included a provision delegating authority to the Deputy Director to approve NBA notices for the agency. That provision mirrored existing regulatory delegations of authority to the Deputy Director for determining whether to grant "approvals" and to issue "non-objection letters" under FHFA's procedures regulations.⁹ The delegation in the proposed rule, like those in the other regulations, included language to the effect that the Director reserved the right to modify, rescind, or supersede any approval granted by the Deputy Director under the delegation of authority.

⁸ See 12 U.S.C. 4513(a)(2)(B).

⁹ See 12 CFR 1211.3(a) and 1211.4(a).

Commenters expressed concern that this reservation of authority to the Director would create uncertainty for Banks, which may have committed substantial resources to implement approved activities, as to the possibility that the Director might rescind the delegated approval well after the fact. To eliminate this uncertainty, commenters requested that the final rule require that the Director grant all NBA approvals. FHFA declines to accept the commenters' requests and has adopted the delegation of authority provision as proposed. FHFA included the delegation of authority provision within the proposed rule in large part to expedite the approval process for those NBA notices that do not raise significant policy, supervisory, or legal issues. This delegation of authority for the NBA notices is nearly identical to the existing delegations under which the Deputy Director has granted approvals for other transactions or issued non-objection letters to the Banks, and thus should create no greater uncertainty for the Banks than already exists with respect to approvals and non-objections letters. Further, as a matter of agency practice, the Deputy Director generally consults with the Director before granting any delegated authority approvals, particularly those raising significant supervisory, policy, or legal issues, and should continue to do so under the final rule.

V. Paperwork Reduction Act

The Paperwork Reduction Act (PRA) (44 U.S.C. 3501 et seq.) requires that regulations involving the collection of information receive clearance from the Office of Management and Budget (OMB). The final rule contains no such collection of information requiring OMB approval under the PRA. Consequently, no information has been submitted to OMB for review.

VI. Regulatory Flexibility Act

The final rule applies only to the Banks, which do not come within the meaning of small entities as defined in the Regulatory Flexibility Act (RFA). See 5 U.S.C. 601(6). Therefore, in accordance with section 605(b) of the RFA, FHFA certifies that this final rule is not likely to have a significant economic impact on a substantial number of small entities.

List of Subjects in 12 CFR Part 1272

Federal home loan banks, Reporting and recordkeeping requirements.

Authority and Issuance

Accordingly, for reasons stated in the preamble and under the authority of 12 U.S.C. 1431(a), 1432(a), 4511(b), 4513, 4526(a), FHFA hereby amends subchapter D of chapter XII of title 12 of the Code of Federal Regulations by revising part 1272 to read as follows:

PART 1272—NEW BUSINESS ACTIVITIES

Sec.

1272.1 Definitions.

1272.2 Limitation on Bank authority to undertake new business activities.

1272.3 New business activity notice requirement.

1272.4 Review process.

1272.5 Additional information.

1272.6 Examinations.

1272.7 Approval of notices.

Authority: 12 U.S.C. 1431(a), 1432(a), 4511(b), 4513, 4526(a).

§ 1272.1 Definitions.

As used in this part:

Business Day means any calendar day other than a Saturday, Sunday, or legal public holiday listed in 5 U.S.C. 6103.

NBA Notice Date means the date on which FHFA receives a new business

activity notice.

New business activity (NBA) means any business activity undertaken, transacted, conducted, or engaged in by a Bank that entails material risks not previously managed by the Bank. A Bank's acceptance of a new type of advance collateral does not constitute an NBA.

§ 1272.2 Limitation on Bank authority to undertake new business activities.

No Bank shall undertake an NBA except in accordance with the procedures set forth in this part.

§ 1272.3 New business activity notice requirement.

Prior to undertaking an NBA, a Bank shall submit a written notice of the proposed NBA that provides a thorough, meaningful, complete, and specific description of the activity such that FHFA will be able to make an informed decision regarding the proposed activity. At a minimum, the notice should include the following information:

(a) A written opinion of counsel identifying the specific statutory, regulatory, or other legal authorities under which the NBA is authorized and, for submissions raising legal questions of first impression, a reasoned analysis explaining how the cited authorities can be construed to authorize the new activity;

(b) A full description of the proposed activity, including, when applicable, infographics and definitions of key terms. In addition, the Bank shall indicate whether the proposed activity represents a modification to a previously approved activity in which the Bank is engaged or is an activity that FHFA has approved for any other Banks, if known to the requesting Bank, and if applicable;

(c) A discussion of why the Bank proposes to engage in the new activity and how

the activity supports the housing finance and community investment mission of the Bank;

(d) A discussion of the risks presented by the new activity and how the Bank will manage these risks; and

(e) A good faith estimate of the anticipated dollar volume of the activity, and the income and expenses associated with implementing and operating the new activity, over the initial three years of operation.

§ 1272.4 Review process.

(a) Within 30 business days of the NBA Notice Date, FHFA will take one of the following actions:

(1) Approve the proposed NBA;

(2) Deny the proposed activity; or

(3) Inform the Bank that the activity raises policy, legal, or supervisory issues that require further evaluation. If FHFA fails to take any of those actions by the 30th business day following the NBA Notice Date, the NBA notice shall be deemed to have been approved and the Bank may commence the activity for which the notice was submitted.

(b) In the case of any notice that FHFA has determined requires further evaluation, FHFA will approve or deny the notice by no later than the 80th business day following the NBA Notice Date. If FHFA fails to approve or deny a NBA notice by that date, and the Director has not extended the review period, the NBA notice shall be deemed to have been approved and the Bank may commence the activity for which the notice was submitted.

(c) For purposes of calculating the review period, no days will be counted between the date that FHFA has requested additional information from the Bank pursuant

to § 1272.5 and the date that the Bank responds to all questions communicated.

(d) Notwithstanding anything contained in this part, the Director may extend the 80 business-day review period by an additional 60 business days if the Director determines that additional time is required to consider the notice. In such a case, FHFA will inform the Bank of any such extension before the 80th business day following the NBA Notice Date, and the Bank may not commence the NBA until FHFA has affirmatively approved the notice.

(e) In considering any NBA notice, FHFA will assess whether the proposed activity will be conducted in a safe and sound manner and is consistent with the housing finance, community investment, and liquidity missions of the Banks and the cooperative nature of the Bank System. FHFA may deny an NBA notice or may approve the notice, which approval may be made subject to the Bank's compliance with any conditions that FHFA determines are appropriate to ensure that the Bank conducts the new activity in a safe and sound manner and in compliance with applicable laws or regulations and the Bank's mission.

§ 1272.5 Additional information.

FHFA may request additional information from a Bank necessary to issue a determination regarding an NBA. After an initial request for information, FHFA may make subsequent requests for information only to the extent that the information provided by the Bank does not fully respond to a previous request, the subsequent request seeks information needed to clarify the Bank's previous response, or the information provided by the Bank raises new legal, policy, or supervisory issues not evident based on the Bank's NBA notice or responses to previous requests for information. Nothing contained

in this paragraph shall limit the Director's authority to request additional information from a Bank regarding an NBA for which the Director has extended the review period.

§ 1272.6 Examinations.

Nothing in this part shall limit in any manner the right of FHFA to conduct any examination of any Bank relating to its implementation of an NBA, including pre- or post-implementation safety and soundness examinations, or review of contracts or other agreements between the Bank and any other party.

§ 1272.7 Approval of notices.

The Deputy Director for Federal Home Loan Bank Regulation may approve requests from a Bank seeking approval of any NBA notice submitted in accordance with this part. The Director reserves the right to modify, rescind, or supersede any such approval granted by the Deputy Director, with such action being effective only on a prospective basis.

Dated: December 12, 2016

Melvin L. Watt,
Director, Federal Housing Finance Agency.

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